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SIPDIS

SENSITIVE

DEPT FOR EUR/WE AND DRL/IL
DOL FOR ILAB/BRUMFIELD, LEVINTOW

E.O. 12958: N/A

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SUBJECT: FIAT: WORKER PROTESTS CONTINUE; SICILIAN SOLUTION
IN SIGHT?

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REFTELS: A) ROME 5139 B) MILAN 723

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1. (SBU) SUMMARY: FIAT AUTO, TRADE UNIONS AND THE BERLUSCONI GOVERNMENT CONTINUE THEIR POSTURING AROUND THE AUTOMAKER'S PLAN TO CUT COSTS BY IDLING THREE PLANTS AND LAYING OFF OVER 8,000 EMPLOYEES. ALTHOUGH FIAT'S LENDERS APPEAR TO BE THE ONLY ONES CONTENT WITH THE PLAN AS CONCEIVED, WORKER ACTIVISM, POPULAR ATTENTION -- AND GOVERNMENT MEDIATION -- IS FOCUSED ON SICILY, WHERE CHRONICALLY HIGH UNEMPLOYMENT AND THE SPECTRE OF A RESURGENT MAFIA MAGNIFY THE SOCIAL IMPACT OF 1800 LAYOFFS AT FIAT'S TERMINI IMERESE PLANT. WITH THE ENTIRE SICILIAN PARLIAMENTARY DELEGATION HAILING FROM THE PARTIES IN PM BERLUSCONI'S COALITION, THE GOVERNMENT IS DETERMINED TO PREVENT THE PLANT'S PERMANENT CLOSURE. AT ITS HEART, THE WRANGLING IS NOT ABOUT THE RESTRUCTURING PLAN'S IMMEDIATE IMPACT; IT'S ABOUT COMPETING VISIONS FOR THE LONG-TERM HEALTH AND DIVERSITY OF THE ITALIAN ECONOMY. FOR MANY ITALIANS, THE FIAT CRISIS HAS BECOME A LEITMOTIF FOR THE FUTURE SHAPE OF THEIR INDUSTRIAL SECTOR AND LABOR MARKET -- AND WHAT ONE SEES DEPENDS VERY MUCH ON WHICH END OF THE PENINSULA ONE LIVES. END SUMMARY

2. (U) SOME OBSERVERS (INCLUDING US) HAVE LIKENED THE MANEUVERING AROUND THE RESTRUCTURING PLAN TO A HIGH-STAKES POKER GAME. BUT IN RECENT WEEKS, IT'S LOOKED MUCH MORE LIKE A GAME OF CHICKEN, WITH EACH PARTY SPEEDING TOWARD THE OTHERS, ACCELERATOR JAMMED TO THE FLOOR, HOPING TO FORCE THE OTHER PARTIES OFF THE ROAD. THE GOVERNMENT AVERTED A MAJOR
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COLLISION AT A NOVEMBER 25 "MEDIATION" SESSION (TO WHICH IT HAD CONVOKED THE PARTIES) BY PERSUADING FIAT TO POSTPONE ITS PLANNED LAYOFF OF 7600 WORKERS FOR 10 DAYS. THE POSTPONEMENT, DEMANDED BY LABOR AS A PRECONDITION FOR FURTHER TALKS, SETS THE STAGE FOR FURTHER DISCUSSIONS OF A MODIFIED FIAT RESTRUCTURING PLAN.

3. (SBU) ALTHOUGH THE ENTIRE PLAN OSTENSIBLY WILL BE UNDER REVIEW, IT'S CLEAR THE GOVERNMENT'S MAIN OBJECTIVE WILL BE TO HAMMER OUT AN AGREEMENT THAT PRESERVES MOST, IF NOT ALL, THE 1800 JOBS AT FIAT'S PLANT IN SICILY. BEHIND THE SCENES, EVEN LABOR SEEMS TO AGREE WITH THIS APPROACH; UNION OFFICIALS IN MILAN HAVE TOLD US THEY EXPECT MOST OF THE WORKERS IDLED FROM AN ALFA ROMEO PLANT NEARBY TO QUICKLY FIND OTHER JOBS IF, AS EXPECTED, THE PLANT IS PERMANENTLY CLOSED. AT THE NOVEMBER 25 SESSION, FIAT OFFICERS REPORTEDLY PROPOSED MODIFICATIONS UNDER WHICH THE SICILIAN PLANT, SITE OF THE MOST DRAMATIC PROTESTS, WOULD REOPEN IN SIX MONTHS AFTER RETOOLING TO PRODUCE A NEW VERSION OF THE PUNTO -- PRODUCTION THAT WOULD BE SHIFTED FROM FIAT'S MIRAFIORI PLANT IN TURIN.

4. (U) IN THIS AND FUTURE PASSES OF CHICKEN, EACH OF THE DRIVERS HAS SOME HEAVY MUSCLE RIDING SHOTGUN. THE UNION CONFEDERATION LEADERS CAN POINT TO THE THOUSANDS OF FIAT WORKERS, THEIR FAMILIES AND OTHER SUPPORTERS WHO HAVE STAGED A ROLLING SERIES OF STRIKES AND OTHER ACTIONS TO DRAMATIZE THE IMPACT OF THE LAYOFFS. THOUSANDS OF FIAT WORKERS AND THEIR FAMILIES NOVEMBER 12-15 BLOCKED PALERMO'S AIRPORT AND TRAIN STATION, THE MESSINA FERRY TERMINALS AND SICILIAN HIGHWAYS, SNARLING TRAFFIC, PROMPTING WIDESPREAD DELAYS AND
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BRINGING MUCH OF THE REGION/ISLAND TO A STANDSTILL. WORKERS FROM THE ALFA ROMEO PLANT OUTSIDE MILAN SHUT DOWN MALPENSA AIRPORT FOR AN HOUR NOVEMBER 21 AND BLOCKED A MAJOR FREEWAY NOVEMBER 25. STRIKES HAVE IDLED ALL OF FIAT'S PLANTS SEVERAL TIMES. OBSERVERS POINT TO THE DIFFERENT ATMOSPHERE AT THE VARIOUS FIAT PLANTS AFFECTED: AT THE ALFA PLANT OUTSIDE MILAN AND AT FIAT'S HEADQUARTERS IN TURIN, THE MOOD IS ONE OF ANGER; AT THE SICILIAN PLANT, IT IS ONE OF DESPERATION. METALWORKERS HAVE STAGED A SECTOR-WIDE

SOLIDARITY ACTION, AND ONE OF THE METALWORKER FEDERATION LEADERS TOLD US TALKS WERE UNDERWAY TO ORGANIZE A SOLIDARITY STRIKE AT FIAT'S OTHER EUROPEAN PLANTS.

15. (U) ON MANAGEMENT'S SIDE, FIAT AUTO'S LENDORS AREN'T JUST ALONG FOR THE RIDE; THEY'VE LEANED ACROSS AND ADDED THEIR FOOT TO THE ACCELERATOR. UNINTERESTED IN EITHER PROVIDING FURTHER LOANS OR BECOMING FIAT SHAREHOLDERS BY BUYING BACK THEIR DEBT, THE BANKS CONTINUE TO PRESS FOR MAXIMUM COST SAVINGS. THE COMPANY HAD A MUCH-PUBLICIZED MEETING WITH ITS MAJOR LENDORS NOVEMBER 21. AFTERWARD, IT DECLARED THAT IT WAS WILLING TO ADJUST THE DETAILS OF ITS RESTRUCTURING PROPOSAL BUT COULD NOT ACCEPT ANY CHANGES THAT REDUCED THE PROJECTED COST SAVINGS (AT LEAST 2 BILLION EUROS).

16. (U) THE BERLUSCONI GOVERNMENT'S CAR IS ALSO CROWDED, JAMMED AS IT IS WITH THE ENTIRE SICILIAN PARLIAMENTARY DELEGATION (NOT TO MENTION SEVERAL OF THE CABINET'S MOST

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ACTION EUR-00

INFO	LOG-00	NP-00	AGRE-00	AID-00	CEA-01	CIAE-00	COME-00
	CTME-00	DODE-00	ITCE-00	DOTE-00	ANHR-00	SRPP-00	DS-00
	EB-00	ED-01	EXME-00	E-00	FAAE-00	UTED-00	VC-00
	FRB-00	HHS-01	H-01	SSA-01	TEDE-00	INR-00	ITC-01
	LAB-01	L-00	VCE-00	AC-01	DCP-01	NSAE-00	NSCE-00
	OMB-01	OPIC-01	PA-00	PER-00	PM-00	PRS-00	ACE-00
	P-00	SCT-00	SP-00	IRM-00	SSO-00	STR-00	TEST-00
	TRSE-00	USIE-00	PMB-00	DSCC-00	PRM-00	DRL-02	G-00
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TO SECSTATE WASHDC 7087
INFO DEPT OF LABOR WASHDC
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PROMINENT MEMBERS) AND THEIR CONSTITUENTS. SEVERAL PARLIAMENTARIANS HAVE THREATENED TO BLOCK PASSAGE OF THE 2003 BUDGET ABSENT GUARANTEES THE TERMINI IMERESE PLANT WILL REOPEN, AND DEPUTY PRIME MINISTER FINI WARNED FIAT IT WOULD "FACE A FIGHT, AND NOT JUST WITH THE SOCIAL PARTNERS" UNLESS IT MODIFIED ITS PLAN. THE GOVERNMENT'S CAR IS ALSO RUNNING ON CASH; THE LABOR MINISTRY MUST DECLARE AN EMPLOYMENT 'STATE OF EMERGENCY' BEFORE FIAT CAN SHIFT THE IDLED WORKERS OFF THE PAYROLL INTO AN EMERGENCY UNEMPLOYMENT SCHEME FINANCED LARGELY BY THE GOVERNMENT (UNDER WHICH THEY WILL RECEIVE A GENEROUS 80 PERCENT OF THEIR SALARY FOR AT LEAST ONE YEAR).

17. (SBU) AT THEIR HEART, THE NEGOTIATIONS ARE ABOUT THE SICILIAN PLANT'S LONG-TERM PROSPECTS; THIS IS WHERE TERMINI IMERESE BECOMES A LEITMOTIF FOR FIAT'S -- AND MORE BROADLY, MANUFACTURING'S -- FUTURE IN ITALY. FOR MANAGEMENT, THE PLANT'S IDLING IS AN ACCOUNTING DECISION THAT WILL RESTORE THE FIRM TO COMPETITIVENESS AND/OR MAKE IT MORE ATTRACTIVE TO GM (FIAT HAS AN OPTION TO SELL GM A CONTROLLING STAKE IN THE COMPANY IN 2004). FIAT HAS SAID IT WILL REOPEN THE PLANT IN 12 MONTHS IF SALES OF THE MODEL MANUFACTURED THERE IMPROVE. THE TRADE UNION CONFEDERATIONS ARGUE THE COMPANY HAS NOT PRESENTED A COMPREHENSIVE RESTRUCTURING PLAN, WITH NEW INVESTMENT IN DESIGN AND PRODUCTION, TO DEMONSTRATE THAT IT PLANS TO REOPEN THE PLANT AND MAINTAIN CURRENT EMPLOYMENT LEVELS. THIS REFLECTS THE UNION'S INTEREST IN MAINTAINING A VIABLE, INNOVATIVE AUTOMOBILE INDUSTRY IN ITALY, ONE IN WHICH TRADITIONAL ITALIAN STRENGTHS IN DESIGN AND PRODUCTIVITY WOULD OUTWEIGH LOWER LABOR COSTS OFFSHORE.

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FIAT'S ACQUISITION BY GM, THEY FEAR, WILL LEAD TO A STEADY DECLINE OF MANUFACTURING JOBS AS THE "GM COLOSSUS" SHIFTS PRODUCTION TO PLANTS OUTSIDE ITALY.

18. (U) FOR THE GOVERNMENT, SUBSTANTIAL JOB LOSS IS THE BRIGHT RED LINE; HOW EMPLOYMENT IS MAINTAINED IS LESS IMPORTANT. CURRENTLY, THREE OPTIONS ARE UNDER PUBLIC DISCUSSION:

-- RETOOLING THE PLANT AND PRODUCING NEW MODELS;
-- SELLING THE PLANT TO ANOTHER AUTO MANUFACTURER;
-- CONVERTING THE PLANT TO ANOTHER INDUSTRIAL USE (THE SICILIAN REGIONAL PRESIDENT HAS SUGGESTED A CONTAINER TERMINAL, THOUGH IT IS DIFFICULT TO SEE SUCH A FACILITY EMPLOYING SIMILAR NUMBERS OF WORKERS).

19. (U) THE GOVERNMENT HAS SEVERAL TOOLS TO PROMOTE AND ACHIEVE ANY OF THESE ALTERNATIVES. THE FIRST IS A SPECIAL DEVELOPMENT FUND FOR SOUTHERN ITALY, WHICH THE GOVERNMENT CAN DISPENSE TO OFFSET DEVELOPMENT COSTS (TO RETOOL THE PLANT OR HELP FINANCE NEW MANUFACTURING ON THE SITE, FOR EXAMPLE). IT MAY ALSO EMPLOY A VARIETY OF DIFFERENT ACCORDS WHICH PROVIDE, WITH THE AGREEMENT OF LABOR, SPECIAL TERMS OF EMPLOYMENT (FOR EXAMPLE, WAGE REDUCTIONS OR INCREASED SHIFT WORK); IN ESSENCE THESE ACCORDS CARVE OUT EXCEPTIONS TO THE NATIONAL LABOR CONTRACTS, OFFERING EMPLOYERS BETTER TERMS IN EXCHANGE FOR CREATING JOBS IN HIGH-UNEMPLOYMENT AREAS.

110. (U) IT'S UNCLEAR WHICH OF THESE REMEDIES, IF ANY, THE GOVERNMENT WILL CHOOSE TO EMPLOY. THE MOST LIKELY SCENARIO IS A PROMPT DECLARATION OF THE REQUIRED "STATE OF
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EMERGENCY," AND COMMENCEMENT OF THE SPECIAL UNEMPLOYMENT BENEFITS IN EARLY DECEMBER (WHICH SHOULD ALLOW FIAT TO BEGIN REALIZING THE COST SAVINGS IT NEEDS TO MEET ITS LENDORS' TERMS), FOLLOWED BY MORE LENGTHY NEGOTIATIONS TO DETERMINE THE PLANT'S FUTURE.

11. (SBU) COMMENT: WE SHARE ONE CONTACT'S VIEW THAT THE INTENSE FOCUS ON THE TERMINI IMERESE PLANTS SAYS A GREAT DEAL ABOUT HOW ITALIANS VIEW -- OR CHOOSE NOT TO VIEW -- SOME OF THE UNCOMFORTABLE REALITIES OF THEIR CHANGING ECONOMY AND LABOR MARKET. "THERE HAS BEEN INTENSE PRESS COVERAGE OF WHAT AMOUNTS TO 6,000 JOBS, AND VIRTUALLY NONE ON THE REGULARIZATION (UNDER WHICH 700,000 PREVIOUSLY ILLEGAL IMMIGRANTS RECEIVED LEGAL STATUS)," HE NOTED. PERHAPS THAT'S BECAUSE MOST OF THE IMMIGRANTS ARE ALREADY FIXTURES OF LOCAL ECONOMIES IN NORTHERN AND CENTRAL ITALY, A PHENOMENON MANY HERE WOULD PREFER NOT TO ACKNOWLEDGE. MANY NORTHERN ITALIANS APPEAR ALREADY TO HAVE ACCEPTED THAT A DIFFERENT FIAT -- LEANER, PERHAPS MEANER AND NO LONGER LOCALLY-OWNED -- WILL EMERGE FROM THIS RESTRUCTURING PROCESS. THEIR SOUTHERN COMPATRIOTS, WITH FEWER ECONOMIC OPTIONS, ARE MUCH MORE FOCUSED ON THE IMMEDIATE CONSEQUENCES.
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